



J. TYLER McCAULEY  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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March 7, 2007

TO: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne B. Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **BIENESTAR HUMAN SERVICES – A HIV/AIDS PREVENTIVE CARE  
AND CARE SERVICES CONTRACTOR**

We have completed a fiscal review of Bienestar Human Services, Inc. (Bienestar or Agency), a HIV/AIDS preventive care and care services provider.

**Background**

The Department of Public Health, Office of AIDS Programs and Policy (OAPP) contracts with Bienestar to provide HIV/AIDS educational, preventive, mental health counseling, peer support, treatment adherence, and food bank/pantry services. Bienestar Human Services is located in the First Supervisorial District.

At the time of our review, Bienestar had seven contracts with OAPP ranging from contract terms effective March 1, 2005 to June 30, 2006, for a total contract maximum of \$3,010,342. Under the contract provisions, OAPP pays Bienestar on a cost reimbursement basis. Bienestar received approximately \$2,287,000 in OAPP funds from March 2005 to June 2006.

**Purpose/Methodology**

The purpose of our review was to ensure that Bienestar appropriately charged OAPP for services provided in accordance with the County contract. We also evaluated the adequacy of Bienestar's accounting records, internal controls, and compliance with the contract and applicable federal and State fiscal guidelines governing the Ryan White, Comprehensive AIDS Resource Emergency Act.

*"To Enrich Lives Through Effective and Caring Service"*

### **Results of Review**

Bienestar needs to correct contract compliance deficiencies and improve internal controls to ensure that OAPP funds are appropriately used for program related activities and their business transactions are accurately recorded. Specifically:

- Bienestar's payroll billings to OAPP were based on budgeted positions and not on actual time spent by employees on OAPP activities as required.
- Bienestar's client/patient in-take procedures did not adequately document the screening for Medi-Cal, private medical insurance and other public sector funding.
- Bienestar has not implemented a client/patient fee determination system and has not established client/patient fees as required.
- Bienestar did not complete monthly bank reconciliations and the reconciliations that were completed were not correct. In addition, the Agency's accounting records did not report an accurate cash balance and the program expenditures were not always accurately recorded.
- Bienestar charged OAPP for \$2,036 in unallowable and undocumented costs.
- Bienestar charged OAPP approximately \$36,000 (45%) of the \$80,000 in rent payments (from March to December 2005) to a related party under a "sale and lease back" arrangement. The County contract requires Agencies to be in compliance with the Office of Management and Budget (OMB Circular A-122) guidelines which limit the amount the Agency can charge for property in a related party transaction. The Agency did not provide documentation to support the amount the Agency would have paid if they still own the property.

The details of our review along with recommendations for corrective action are attached.

### **Review of Report**

In November 2006, we discussed our report with Bienestar. In their attached response, Bienestar disagreed that their intake procedures did not document the screening of the participants' Medi-Cal or private medical insurance as required. They indicated that the Casewatch System contained the participants' relevant insurance information. However, the County contract requires that the intake screening forms be maintained in the participants' case files and show that the participants were screened for health insurance.

Board of Supervisors

March 7, 2007

Page 3

In addition, Bienestar indicated that they bill OAPP actual payroll costs. However, the Agency's payroll costs are allocated to OAPP based on budgeted and not actual expenses. Bienestar also requested further clarification from OAPP on the related party lease transaction. We will work with OAPP to clarify this requirement. We also notified OAPP of the results of our review.

We thank Bienestar for their cooperation and assistance during our review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: David E. Janssen, Chief Administrative Officer  
Jonathan E. Fielding, Director, Public Health Department  
Oscar de la O, President/Chief Executive Officer, Bienestar Human Services  
Rita Gonzales, Chairperson, Board of Directors, Bienestar Human Services  
Public Information Office  
Audit Committee

**COUNTYWIDE CONTRACT MONITORING DIVISION  
HIV/AIDS PREVENTIVE CARE AND CARE SERVICES  
BIENESTAR HUMAN SERVICES  
FISCAL YEAR 2005-2006**

**ELIGIBILITY**

**Objective**

Determine whether Bienestar Human Services (Bienestar or Agency) provided services to individuals that meet the eligibility requirements of the Office of AIDS Programs and Policy (OAPP).

**Verification**

We reviewed the case files of eighteen participants that received services between March 2005 and December 2005. We reviewed the case files for documentation to confirm their eligibility for OAPP program services.

**Results**

The case files for four (22%) program participants did not contain documentation to support the participants' eligibility to receive program services. Specifically, three case files did not contain residency verification as required by the contract and one case file did not contain documentation verifying HIV status. Subsequent to our review, Bienestar provided documentation to support the participant's eligibility to receive program services.

In addition, Bienestar's client in-take procedures did not adequately document the screening of clients/patients for Medi-Cal, private medical insurance and other public sector funding. The contract requires that OAPP funds be used only for services that cannot be paid for through other sources. Providers must document in the clients' files that HIV clients have been screened for Medi-Cal, private medical insurance and other public sector funding, as appropriate. Clients are eligible for services after a financial screening has been completed validating that OAPP funds are the payer of last resort for the client's care.

Bienestar also has not implemented a client/patient fee determination system, as required by the County contract. Therefore, the Agency has not charged a fee for services provided. The contract requires that a fee be charged based on the client's/patient's ability to pay. In establishing the fees, the Agency needs to implement a client/patient fee determination system which must be approved by OAPP.

**Recommendations****Bienestar management:**

1. **Ensure that Agency staff obtain the appropriate documentation from clients/participants to determine the participants' eligibility for program services.**
2. **Ensure that client files document that clients are screened for Medi-Cal, private medical insurance and other public sector funding, as appropriate.**
3. **Establish and implement a client/patient fee determination system and ensure that it is reviewed and approved by OAPP.**

**CASH****Objective**

Determine whether cash receipts are properly recorded in the Agency's records and deposited timely into the Agency's bank account. In addition, determine whether the Agency maintained adequate controls over cash, petty cash, and other liquid assets.

**Verification**

We interviewed Bienestar's personnel and reviewed their financial records. We also reviewed the bank reconciliations for August 2005 and September 2005.

**Results**

Bienestar appropriately recorded and deposited cash receipts timely. However, Bienestar needs to improve their controls over cash. Specifically:

- Bienestar did not complete bank reconciliations within 30 days of the bank statement date. The reconciliations for the seven month period requested were completed after we began our audit.
- The preparer and reviewer did not sign and date the completed bank reconciliations
- Bienestar's general ledger did not list the Agency's beginning or ending cash balances.
- Documentation was not maintained to support two adjustments totaling approximately \$97,000 on the August 2005 and September 2005 bank reconciliations. Subsequent to the end of our fieldwork, the Agency provided

additional documentation and we determined that the adjustments were appropriate payroll transactions.

- Two checks written in June 2005 for \$1,000 each and listed on the bank reconciliations as outstanding had not been issued to the vendor. Subsequent to our review, Bienestar voided the checks in their financial records.

### **Recommendations**

#### **Bienestar management:**

4. **Ensure bank reconciliations are prepared within 30 days of the bank statement date and are signed and dated by preparer and reviewer.**
5. **Resolve bank reconciliation differences identified as “suspense items” for the general and payroll bank accounts and maintain supporting documentation for all transactions listed on bank reconciliations.**
6. **Ensure that only valid transactions are included on the bank reconciliations.**
7. **Ensure that beginning and ending cash balances are traceable to the Agency’s accounting records.**
8. **Ensure that the Agency’s accounting system is capable of generating monthly financial reports that include accurate cash account balances.**

## **REVENUE**

### **Objective**

Determine whether revenues are properly recorded and reimbursement claims to OAPP are accurately prepared and calculated. Determine whether fees collected from clients for services provided and third party payments (i.e., private insurance, Medi-Cal or Medicare) are accounted for and reported to OAPP.

### **Verification**

We interviewed Agency personnel and reviewed the Agency’s procedures for requesting reimbursement from OAPP for services.

### **Results**

Bienestar properly recorded revenue and accurately prepared its reimbursement claims to OAPP.

**Recommendation**

There are no recommendations in this section.

**EXPENDITURES****Objective**

Determine whether program expenditures were allowable under the County contract, properly classified and accurately billed to the program.

**Verification**

We interviewed Agency personnel, reviewed financial records, and reviewed documentation for expenditure transactions totaling \$43,452 billed by the Agency from March 2005 to February 2006.

**Results**

Bienestar did not always maintained appropriate documentation to support program expenditures or used OAPP funds to purchase items in accordance with the program requirements. Overall, \$27,809 (64%) of the expenditures reviewed were not appropriately documented and \$2,580 (6%) of the expenditures were used to purchase items that were not program approved. Specifically:

**Undocumented Costs**

- Bienestar did not maintain documentation to support \$3,850 in gifts card purchases, \$1,500 in program supplies, \$1,100 paid to an employee for an Agency event, \$355 in program promotions, and \$149 in travel and printing. The preventive care contract allows Agencies to provide gift cards to eligible participants. However, Agencies must maintain documentation to support the clients' eligibility.
- Bienestar did not maintain a listing of the names of the clients who received gift cards totaling \$18,403. The Agency stated that the gift cards were used as allowable program incentives.
- Bienestar did not maintain documentation to support \$952 in travel costs. The costs included airline tickets to Houston and hotel accommodations in San Francisco for two individuals that were not identified on the Agency's OAPP program staff listing.
- The Agency charged the OAPP program \$1,500 for a conference they sponsored. However, they did not provide documentation that identified the nature of the conference or whether the costs were related to the OAPP program.

Subsequent to our exit conference, Bienestar provided additional documentation to support the various undocumented costs described above. As a result, the undocumented costs were reduced to \$744.

#### Unallowable Costs

- The Agency charged \$1,607 for property taxes and payments to Long Beach City Planning Division which is not an allowable expense. Subsequent to our exit conference, Bienestar provided additional documentation and the unallowable costs were reduced to \$1,292.
- The Agency charged \$98 in office supplies that were incurred prior to the effective date of the Agency's OAPP contract.

#### Related Party Lease Payments

The Agency charged to OAPP approximately \$36,000 (45%) of the \$80,000 in rent payments (from March to December 2005) to a related party under a "sale and lease back" arrangement. The County contract requires Agencies to be in compliance with the Office of Management and Budget (OMB Circular A-122) guidelines which limit the amount the Agency can charge for the use of property in related party transactions to the amount that the Agency would have paid if they continued to own the property. Bienestar leases the East Los Angeles location from the Latino Social Justice Foundation (Foundation) a non-profit organization for \$8,000 per month. Bienestar's President/Chief Executive Officer is the President/Registered Agent for the Foundation. In addition, a member of Bienestar's Board of Directors is the Foundation's Treasurer who executed the lease agreement.

Bienestar did not provide documentation to support that the \$8,000 paid each month did not exceed the amount the Agency would have paid if they still own the property. Bienestar needs to provide documentation that the lease amount was in compliance with the OMB provisions.

#### Recommendations

##### **Bienestar management:**

9. **Repay DHS \$2,036 for the amount of undocumented and disallowed costs.**
10. **Maintain supporting documentation for all OAPP expenditures.**
11. **Ensure that only allowable expenditures are charged to the program.**
12. **Provide documentation to OAPP and the Auditor-Controller to determine whether the lease amount is in compliance with the provisions in OMB and repay OAPP for the amounts over billed.**



## **INTERNAL CONTROLS**

### **Objective**

To determine whether the contractor maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

### **Verification**

We interviewed Agency personnel, reviewed their policies and procedures manuals, and tested transactions in various non cash areas such as expenditures, payroll, and personnel.

### **Results**

Bienestar needs to improve their internal controls over purchasing goods and services. Specifically:

- Bienestar did not always mark invoices “paid” or cancel them to prevent duplicate payments.
- Bienestar used credit cards to purchase the majority of their program supplies. The documentation used to support the purchases did not indicate that the purchases were pre-approved by management for reasonableness and necessity.
- Expenditures were not always accurately recorded in the Agency’s accounting records. For example, food and program supplies were recorded as office supplies and mileage expenses, respectively.

### **Recommendations**

#### **Bienestar management:**

13. **Require that invoices or receipts be marked “paid” or otherwise cancelled to prevent reuse or duplicate payments.**
14. **Limit the use of credit cards to purchases where normal purchasing and disbursement practices are not suitable.**
15. **Ensure that credit card purchases are pre-approved by Agency management.**
16. **Ensure all Agency expenditures are properly recorded and classified in the accounting records.**

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll is appropriately charged to the OAPP program. In addition, determine whether personnel files are maintained as required.

**Verification**

We reviewed payroll expenditures charged to OAPP between June and August 2005 which totaled approximately \$12,000. We also reviewed ten personnel files of staff assigned to the OAPP program.

**Results**

Generally, Bienestar maintained the required personnel records that support authorized employee salary rates and employee benefits. However, Bienestar's payroll billings were based on allocating costs based on budgeted positions and not on actual time spent by employees performing OAPP related activities as required by the County contract. In addition, Bienestar did not require their staff to report the actual hours worked on the OAPP program on their timecards. As a result, we were unable to verify the appropriateness of the payroll expense billed to OAPP.

**Recommendations****Bienestar management:**

- 17. Ensure payroll billings are based on actual hours spent by employees performing OAPP related activities.**
- 18. Ensure all employees record actual hours worked each day on their time reports to support the time spent on program activities.**

**COST ALLOCATION PLAN****Objective**

Determine whether Bienestar's Cost Allocation Plan is prepared in compliance with the County contract and applied to program costs.

**Verification**

We reviewed Bienestar's Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency from March to December 2005 to ensure that the expenditures were properly allocated to the Agency's appropriate programs.

**Results**

As previously mentioned, the Agency incorrectly allocated direct payroll expenses using allocations of budgeted positions and not actual time spent by employees performing OAPP related activities as required. As a result, we recommended that Bienestar bill and allocate payroll expenditures based on actual time spent on the program activities and ensure employee's timecards indicate the total hours worked each day by program.

**Recommendation**

**Refer to recommendations 17 and 18 above.**



## ***BIENESTAR HUMAN SERVICES, INC.***

**Administrative Offices:**

5326 East Beverly Blvd  
Los Angeles, CA 90022  
(323) 727-7896  
Fax: (323) 727-0284

**Community Service Centers:**

**Hollywood Center**  
4955 Sunset Blvd.  
Los Angeles, CA 90027  
(323) 660-9680  
Fax (323) 660-6279

**East Los Angeles Center**  
5326 E. Beverly Blvd.  
Los Angeles, CA 90022  
(323) 727-7896  
Fax (323) 727-7985

**San Fernando Valley Center**  
14515 Hamlin St., Suite 100  
Van Nuys, CA 91411  
(818) 908-3820  
Fax (818) 908-3844

**Pomona Center**  
180 E. Mission Blvd.  
Pomona, CA 91766  
(909) 397-7660  
Fax (909) 397-7661

**Long Beach Center**  
1020 E. Pacific Coast Highway  
Long Beach, CA 90806  
(562) 591-5191  
Fax (562) 591-5201

**South Los Angeles Center**  
130 W Manchester Ave.  
Los Angeles CA 90003  
(323) 752 3100  
Fax (323) 752 3420

**AMF/Bienestar El Monte Clinic**  
3131 Santa Anita Ave #109  
El Monte, CA 91733  
(626) 444-9453

**La Casa-GLBT Center**  
5301 E. Beverly Blvd.  
Los Angeles, CA 90022  
(323) 727-7897  
Fax (323) 727-7993

**San Bernardino Center**  
191 South E Street, #D  
San Bernardino, CA 92401  
(909) 889-5333  
Fax (909) 889-5373

**San Diego Center**  
3020 North Park Way  
San Diego, CA 92104-3619  
(619) 295-2192  
Fax (619) 295-2513

January 12, 2007

Mr. J. Tyler McCauley  
Auditor-Controller  
County of Los Angeles  
Department of Auditor-Controller  
500 West Temple Street, Room 525  
Los Angeles, CA 90012-2766

Dear Mr. McCauley,

Attach please find our agency's response to the audit conducted by your office.

Our organization is committed to strengthen our administrative and infrastructure development, so that we enhance the quality of our services provided to the community impacted by HIV/AIDS.

We will continue to review your findings and recommendations with good-faith effort.

On behalf of our organization, we want to acknowledge the guidance and support provided by your staff, Maria McGloin.

Please call me or Robert Contreras if you have any questions in regards to our response.

Respectfully

Oscar De La O  
President & CEO

**ACCESS, EDUCATION, MOBILIZATION: Our Community's Solution!**

**COUNTYWIDE CONTRACT MONITORING DIVISION  
HIV/AIDS PREVENTIVE CARE AND CARE SERVICES  
BIENESTAR HUMAN SERVICES FISCAL YEAR 2005-2006**

**ELIGIBILITY**

**Objective**

Determine whether Bienestar Human Services (Bienestar or Agency) provided services to individuals that meet the eligibility requirements of the Office of AIDS Programs.

**Verification**

We reviewed the case files of eighteen participants that received services between March 2005 and December 2005. We reviewed the case files for documentation to confirm their eligibility for Office of AIDS program services.

**Results**

The case files for four (22%) program participants did not contain documentation to support the participants' eligibility to receive program services. Specifically, three case files did not contain residency verification as required by the contract and one case file did not contain documentation verifying HIV status. Subsequent to our review, Bienestar provided documentation to support the participant's eligibility to receive program services.

In addition, Bienestar's client in-take procedures did not adequately document the screening of clients/patients for Medi-Cal, private medical insurance and other public sector funding. The contract requires that OAPP funds be used only for services that cannot be paid for through other sources. Providers must document that HIV clients have been screened for Medi-Cal, private medical insurance and other public sector funding, as appropriate. Clients are eligible for services after a financial screening has been completed validating that OAPP funds are the payer of last resort for the client's care.

Bienestar also has not implemented a client/patient fee determination system, as required by contract. Therefore, the Agency has not charged a fee for services provided. The contract requires that a fee be charged based on the client's/patient's ability to pay. In establishing the fees, the Agency needs to implement a client/patient fee determination system, which must be approved by OAPP.

## **Recommendations**

### **Bienestar management:**

1. **Ensure that agency staff obtain the appropriate documentation from clients/participants to determine the participant's eligibility for program services.**
2. **Ensure that client files contain documentation showing that clients are screened for Medi-Cal, private medical insurance and other public sector funding, as appropriate.**
3. **Establish and implement a client/patient fee determination system and ensure that it is reviewed and approved by the OAPP.**

### **AGENCY RESPONSE:**

The L.A. County – Office of AIDS Programs and Policy (OAPP) mandates that Bienestar Human Services (BIENESTAR) use the Casewatch Software to record and maintain client files. Staff records on this computerized system the information noted in the audit that is missing. The auditors reviewed the client paper files, where notes are made before the information is transferred to the computerized Casewatch software. In the Casewatch software, the information identified as missing in the audit is properly recorded.

BIENESTAR will on a regular basis reviewed with CARE staff the requirements of data collection.

All of the clients served by BIENESTAR fall under the poverty level guidelines and makes them eligible for the Ryan White CARE Act Funds – Title I and II. This is documented in each of the client files with proof of income and residency. For this reason the agency did not have a client/patient fee determination system. Since the audit, BIENESTAR has developed a fee determination system and has submitted to OAPP for review and approval.

## **CASH**

### **Objective**

Determine whether cash receipts are properly recorded in the Agency's records and deposited timely into the Agency's bank account. In addition, determine whether the Agency maintained adequate controls over cash, petty cash, and other liquid assets.

### **Verification**

We interviewed Bienestar's personnel and reviewed their financial records. We also reviewed the bank reconciliations for August 2005 and September 2005.

### **Results**

Bienestar appropriately recorded and deposited cash receipts timely. However, Bienestar needs to improve their controls over cash. Specifically:

- Bienestar's general bank account was not reconciled monthly. The reconciliations for the seven month period in our review were prepared after we began our audit. The reconciliations also contained a number of errors.
- Bienestar's general ledger did not list the Agency's ending or beginning cash balance. The Agency uses their accounting system to generate the cash balances reported on the completed bank reconciliations. However, the Deputy Director indicated that the accounting system's cash balances are not always accurate.
- Documentation was not maintained to support two adjustments totaling approximately \$97,000 on the August 2005 and September 2005 bank reconciliations. According to the Deputy Director, the amounts were payroll related adjustments generated by the Agency's accounting system.
- Two checks written in June 2005 for \$1,000 each and listed on the bank reconciliations as outstanding had not been issued to the vendor. Subsequent to our review, Bienestar voided the checks in their financial records.
- The preparer did not sign and date the completed bank reconciliations nor are the bank reconciliations reviewed and approved.

### **Recommendations**

#### **Bienestar management:**

- 4. Ensure bank reconciliations are prepared within 30 days of the bank statement date and are signed and dated by preparer and reviewer.**
- 5. Take immediate action to resolve bank reconciliation differences identified as "suspense items" for the general and payroll bank accounts.**
- 6. Ensure that only valid transactions are included on the bank reconciliations.**

- 7. Ensure that beginning and ending cash balances are traceable to the Agency's accounting records.**
- 8. Ensure that the Agency's accounting system is capable of generating monthly financial reports that include accurate cash account balances.**

#### **AGENCY RESPONSE:**

BIENESTAR will seriously review and address the recommendations listed in this audit. The limit placed by OAPP of 10% for Indirect Cost on the contract budget reimbursements, places a large burden on organizations like BIENESTAR to have adequate staffing levels and oversight to comply on a timely manner with all of the LAC administrative requirements. However, the organization is addressing all of its responsibilities with a good-faith effort.

BIENESTAR ensures that all transactions on the both general and payroll bank account reconciliations are accurate and valid. The items on the bank reconciliation labeled "suspense items" are open transaction that are in transit and can not be reconciled until next month reconciliation. These items are referred as open items, in transit, time-difference items, in transition, by other accounting systems. The items on this section have not been processed by the cutoff date the bank issued the statement. This process is call "float". Float items become "suspense items" in our system and are not reconciled until the following statement period when they appear on the bank statement.

BIENESTAR has reviewed its accounting policies and procedures and it's ensuring that the accounting staff understands them and follows them to ensure that the auditor's recommendations are adhered and followed.

### **REVENUE**

#### **Objective**

Determine whether revenues are properly recorded and reimbursement claims to OAPP are accurately prepared and calculated. Determine whether fees collected from clients for services provided and third party payments (i.e., private insurance, Medi-Cal or Medicare) are accounted for and reported to OAPP.

#### **Verification**

We interviewed Agency personnel and reviewed the Agency's procedures for requesting reimbursement from OAPP for services.

#### **Results**



Bienestar properly recorded revenue and accurately prepared its reimbursement claims to OAPP.

### **Recommendations**

There are no recommendations in this section.

### **AGENCY RESPONSE:**

None.

## **EXPENDITURES**

### **Objective**

Determine whether program expenditures properly classified and are accurately billed to the program.

### **Verification**

We interviewed Agency personnel, reviewed financial records, and reviewed documentation for expenditure transactions billed by the Agency from March 2005 to February 2006.

### **Results**

Bienestar did not always maintained appropriate documentation to support program expenditures or used OAPP funds to purchase items in accordance with the program requirements. Overall, \$27,809 (64%) of the expenditures reviewed were not appropriately documented and \$2,580 (6%) of the expenditures were used to purchase items that were not program approved. Specifically, we noted:

#### **Undocumented Costs**

- Bienestar did not maintain documentation to support \$3,850 in gifts cards from Ralph's supermarket, \$355 in program promotions, \$149 in travel and printing, \$1,500 in program supplies, \$1,100 in cash advances made to an employee for an Agency event.
- Bienestar did not maintain a listing of the names of the clients or the programs that received gift cards totaling \$18,403 for fast food, Food 4 Less, movie tickets, and a restaurant. The Agency stated that the gift cards were used as program incentives.

- Bienestar did not maintain documentation to support \$952 in travel costs. The costs included airline tickets to Houston and hotel accommodations in San Francisco for two individuals that were not identified on the Agency's OAPP program staff listing.
- The Agency charged \$1,500 for a conference. However, they did not provide documentation that identified the nature of the conference or whether the costs are related to the OAPP program.

#### Unallowable Costs

- The Agency charged \$1,607 for property taxes and payments to Long Beach City Planning Division which is not an allowable expense.
- The Agency charged \$98 in office supplies that were incurred prior to the effective date of the Agency's OAPP contract. The expenditures were incurred in the prior contract period that ended June 30, 2005.

Subsequent to our exit conference, Bienestar provided additional documentation that was not available during our review. As a result, the undocumented and unallowable costs were reduced to \$2,036.

#### Related Party Lease Payments

The Agency charged approximately \$36,000 in rent payments (from March to December 2005) to a related party under a "sale and lease back" arrangement. Bienestar leases the East Los Angeles location from the Latino Social Justice Foundation (Foundation) a Non-profit organization for \$8,000 per month. Bienestar's President/Chief Executive Officer is the President/Registered Agent for the Foundation. In addition, a member of Bienestar's Board of Directors is the Foundation's Treasurer who executed the lease agreement.

For related party lease agreements, OMB Circular A-122 limits the amount the Agency can charge for depreciation or use allowance to the amount that would be allowed had the Agency continued to own the property.

#### Recommendations

##### **Bienestar management:**

- 9. Repay DHS \$2,036 for the amount of undocumented and disallowed costs.**
- 10. Maintain supporting documentation for all OAPP expenditures including vendor invoices and receipts.**
- 11. Ensure that only allowable expenditures are charged to the program.**

**12. Calculate the lease amount following the provisions of OMB Circular A-122 and repay DHS for the amounts over billed.**

**AGENCY RESPONSE:**

BIENESTAR will review the amount being disallowed and pay back to DHS the amount of \$2,036 after final internal review.

BIENESTAR will continue to address with all center, program and senior management the requirements in regards to collecting and maintaining supporting documentation for all OAPP expenditures including vendor invoices and receipts.

In addition, BIENESTAR has added extra review steps to ensure that only allowable expenditures are charged to the program. These enhanced steps include that the accounting clerks verify the information listed by the program managers on the payment request forms, to ensure that proper coding and contract information is listed on each payment request. All payments requests will include the signature of a program director and how the expenditure relates to the program being charged.

Prior to calculating the lease amount for the East Los Angeles location, BIENESTAR is seeking further clarification from L.A. County and will also seek outside guidance. OAPP and the LAC Auditor's Office are providing difference guidance/interpretations.

The East Los Angeles location was transferred to the Social Justice Foundation as a recommendation of OAPP and with assistance of OAPP secured Paul Hastings Law Firm to conduct the transaction.

The \$8,000 amount lease agreement is at a \$1.00 square foot cost. This is below market cost for the area. Current cost along the Beverly Blvd., corridor in East Los Angeles is going for an average of \$1.85 per square foot.

BIENESTAR request technical assistance and guidance from OAPP to properly address this finding and determine the amount to be reimbursed, if the interpretation of the LAC Auditor's Office is proper in regards to BIENESTAR East L.A. location's lease and OMB Circular A-122.

**INTERNAL CONTROLS**

### **Objective**

To determine whether the contractor maintained sufficient internal controls over its business operations.

### **Verification**

We interviewed Agency personnel, reviewed their policies and procedures manuals, and tested transactions in various areas such as cash, expenditures, payroll, and personnel.

### **Results**

Bienestar needs improve their internal controls over purchasing goods and services. Specifically we noted:

- Bienestar did not always mark invoices "paid" or cancel to prevent duplicate payments.
- Bienestar used credit cards to purchase the majority of their program supplies. The documentation used to support the purchases did not indicate that the purchases were pre-approved by management for reasonableness and necessity.
- Expenditures were not always accurately recorded in the Agency's accounting records. For example, food and program supplies were recorded as office supplies and mileage expenses, respectively.

### **Recommendations**

#### **Bienestar management:**

- 13. Require that invoices or receipts be marked "paid" or otherwise cancelled to prevent reuse or duplicate payments.**
- 14. Limit the use of credit cards to purchases where normal purchasing and disbursement practices are not suitable.**
- 15. Ensure that credit card purchases are pre-approved by Agency management. Approval should be shown in writing.**
- 16. Ensure all Agency expenditures are properly recorded and classified in the accounting records.**

### **AGENCY RESPONSE:**

BIENESTAR will review the above recommendations and will implement proper procedures to address the findings listed above.

BIENESTAR has reviewed its accounting policies and procedures and it's ensuring that the accounting staff understands them and follows them to ensure that the auditor's recommendations are adhered and followed.

BIENESTAR has addressed the finding on marking all paid invoices with a "paid" stamp by stamping all processed invoices paid.

BIENESTAR currently limits the use of credit card to purchase where normal purchasing and disbursement practices are not suitable. All credit card purchase are made by BIENESTAR's senior management who have been authorized to make program related purchases. A signed copy of this authorization was provided to LAC Auditor's Office.

BIENESTAR's accounting department will be conducting quarterly review sessions with senior management on properly coding program expenses and required documentation.

## **PAYROLL AND PERSONNEL**

### **Objective**

Determine whether payroll is appropriately charged to the OAPP program. In addition, determine whether personnel files are maintained as required.

### **Verification**

We reviewed payroll expenditures charged to OAPP between June and August 2005 which totaled approximately \$12,000. We also reviewed ten personnel files of staff assigned to the OAPP program.

### **Results**

Generally, Bienestar maintained the required personnel records that support authorized employee salary rates and employee benefits variance balances. However, Bienestar's payroll billings were based on budgeted full time equivalent percentages and not actual time spent as required by the County contract. In addition, Bienestar did not require their staff to report the actual hours worked on the OAPP program on their timecards. As a result, we were unable to verify the appropriateness of the payroll expense billed to OAPP.

### **Recommendations**

**Bienestar management:**

**17. Discontinue using budgeted percentages for billing purposes and ensure payroll billings are based on actual hours spent performing program activities.**

**18. Ensure all employees record actual hours worked on their time reports to support the time spent on program activities.**

**AGENCY RESPONSE:**

It is very important for BIENESTAR to clarify and ensure the understanding of anyone reviewing the findings of this audit, that BIENESTAR always billed for reimbursement from OAPP the actual costs of payroll for the respective employee on the contract. These amounts are derived from actual payroll records. BIENESTAR did not charge OAPP budgeted dollar amounts. All amounts billed to OAPP for reimbursement are actual costs associated with each program and employee working under that program.

Our understanding of this finding is that since BIENESTAR did not ask each employee to list on their respective time sheets the hours worked under their program that the Audit finds this as a finding. However, majority of BIENESTAR staff work under only one contract. In previous LAC audits, we had been advised that having in the Employees Personnel File a Status Form that indicates what contract and the percentage of time that the employee works under the contract is sufficient to meet this finding.

BIENESTAR maintains for each employee in his or her respective Personnel File, an Employee Status Report Form which provides the employee information; contract/program they are working under; percentage of time; rate of pay; and is signed by the authorized director. This form is updated any time there is a change to the job or program classification, FTE, rate change, or address of the employee.

The current LAC auditors did not find this practice as meeting the requirement. BIENESTAR is now requiring all staff to list the contract/program and the hours worked on the time-sheets, prior to submitting for processing.

**COST ALLOCATION PLAN**

**Objective**

Determine whether Bienestar's cost allocation plan is prepared in compliance with the County contract and applied to program costs.

**Verification**

We reviewed Bienestar's cost allocation plan and a sample of expenditures incurred by the Agency from March to December 2005.

### **Results**

As previously mentioned, the Agency incorrectly allocated direct payroll expense using budgeted full time positions and not actual time spent as required. As a result, we recommended that Bienestar bill and allocate payroll expenditures based on actual costs and ensure employee's timecards indicate the total hours worked each day by program.

### **Recommendation**

**Refer to recommendations 17 and 18 above.**

### **AGENCY RESPONSE:**

BIENESTAR's cost allocation plan was developed per the Office of AIDS Program & Policy (OAPP) requirements. BIENESTAR used to allocate cost according to actual expense incurred by each program. OAPP found that this method did not meet their fiscal requirement and therefore required BIENESTAR to change the method it allocated costs. In December 2004, OAPP identified and provided BIENESTAR with a consultant to change the cost allocation plan to FTE percentages. Under OMB-133 the use of FTE percentages is an acceptable method of allocating cost.

BIENESTAR would like to request technical assistance to reconcile the differences between LAC auditors and OAPP requirements in relation to the cost allocation plan.